Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Morrow | Analyst: Norm Catelli | Bill Number: SB 559

Related Bills: See Prior Analysis | Telephone: 845-5117 | Amended Date: May 16, 2001

Attorney: Patrick Kusiak | Sponsor: ______

SUBJECT: Manufacturers' Investment Credit/Increase to 8 %/Extend to Mineral Extraction & Electric Services/Delete Repeal

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended.

_X_ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended ______________________.

_X_ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ______________________.

_X_ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 16, 2001. STILL APPLIES.

____ OTHER - See comments below.

SUMMARY

The bill would:

- Increase the Manufacturers' Investment Credit (MIC) from 6% to 8% of the cost of certain property used in manufacturing activities;
- Expand the universe of eligible taxpayers; and
- Eliminate the current sunset provisions.

SUMMARY OF AMENDMENTS

The May 16, 2001, amendments:

- Expands eligible taxpayers to include those engaged in nonmetallic mineral extraction activities or electric service activities (except public utilities), and
- Eliminates the provision that the MIC would sunset if a certain employment level is not met.

POSITION

Neutral

At its May 2, 2001, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill, with Annette Porini, on behalf of Member B. Timothy Gage abstaining.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP	Gerald H. Goldberg	06/13/01
____ SA	____ O	____ NAR		
_X_ N	____ OUA	____ PENDING		

Summary of Suggested Amendments

As amended, this bill expands the definition of "qualified taxpayer." However, amendments are needed to also expand the definition of "qualified property." See "Implementation Considerations" below.

ANALYSIS

THIS BILL

This bill would increase the MIC from 6% to 8% of the qualified cost of qualified property placed in service in taxable years beginning on or after January 1, 2001. The 2% increase would not apply to MIC carryovers from prior taxable years.

This bill would expand the definition of "qualified taxpayer" to include those engaged in nonmetallic mineral extraction activities and those engaged in electric services (electric power generation, transmission, or distribution). The bill specifically excludes taxpayers that are public utilities from the expanded definition of qualified taxpayers.

This bill would eliminate the provision that this credit becomes inoperative if the total employment in California on the preceding January 1 does not exceed the total employment in California on January 1, 1994, by 100,000 jobs.

This bill also would make minor technical changes to delete obsolete language referencing the low-emission vehicle credit, change "which" to "that" in various places, and codify the specific chapter references to previous amendments.

IMPLEMENTATION CONSIDERATIONS

As currently drafted, this bill would affirmatively provide that a credit is not allowed for equipment used in nonmetallic mineral extraction activities or electric service activities. To achieve the author's goal, the definition of "qualified property" should be amended to add those activities, as well as add the SIC Code activities engaged in by those taxpayers under the qualified property definitions. The definition of qualified property includes tangible personal property used for specified activities, beginning with the point raw materials are introduced to the process and *ending at the point the activity has altered tangible personal property to its completed form, including packaging, if required*. It is unclear if extractive activities result in the altering of tangible personal property to its completed form, thus, the definition of qualified property may not properly address extractive activities. The author may wish to address this issue in amendments. Department staff is available to assist the author with such amendments.

ECONOMIC IMPACT

Revenue Estimate

Based on the author's intent and the discussion below, the revenue loss from this proposal is as follows:

Revenue Impact of SB559 For Taxable Years Beginning on or After January 1, 2001 Enactment Assumed After June 30, 2001 (In Millions)		
2001-2	2002-3	2003-4
-$105	-$120	-$130

Eliminating the repeal date for the MIC would not impact current revenues. It is anticipated that the MIC would not sunset under the current law requirement.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Revenue Discussion

The revenue impact of this proposal would depend on the increased credit amounts and the tax liability of qualified taxpayers.

This estimate is based on data from a U.S. Census Bureau survey of capital expenditures by relevant industries for 1997 and micro simulation models of California tax returns for tax years 1997 and 1998. These numbers were grown to approximate 2001 and beyond. The credit use rates taken from the models were then applied to derive the aggregate credit use. The fiscal year cash flow patterns are based on the department's analysis of how manufacturers adjusted their tax payments to reflect the reduction in liability resulting from the current law MIC.

This estimate does not include losses resulting from qualified taxpayers as defined under current law that might receive additional credit for activities that would qualify under the changes made by this bill. Such losses cannot be quantified since the data and information needed are not available.

ARGUMENTS/POLICY CONCERNS

This bill would increase the incentive for qualified property that is purchased pursuant to a binding contract entered into before January 1, 2001, but placed in service in a taxable year beginning on or after that date. Any qualified costs paid pursuant to that contract would qualify for the increased credit rate provided under this bill even though the taxpayer's business decision to proceed with its project has already occurred.

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